

63-6108
5 JUN 1963

MEMORANDUM FOR: Deputy Comptroller

SUBJECT: Accounts Payable for Headquarters Property Acquisitions

REFERENCES: (a) Memorandum to the Comptroller, from Chief, Finance Division, dated 17 August 1962, same subject
(b) Memorandum to the Comptroller, from Chief, Finance Division, dated 18 September 1962, same subject

1. On the basis of discussions between Finance Division and the Technical Accounting Staff, it has been mutually agreed the recommendations set forth in paragraph 6, below, should be substituted for those contained in references. Modifications are made to provide for:

- a. Continuing to reflect in Agency accounts and financial statements the liability for amounts due others for property subject to Headquarters property procedures.
- b. Requiring investigation of all differences of \$25 or more between the amounts of "payment" and "payable" relating to the same receiving report and purchase order.
- c. Continuing for control purposes, on a modified basis, the use of reciprocal accounts for vouchered fund allotment expenditures for property.

2. The net substantive effect of the proposed changes in procedures in comparison with existing procedures is:

- a. Discontinuance of analysis and investigation of reasons for differences under \$25 between amounts of payments and amounts of payables.
- b. Clarification of responsibilities for the maintenance, analysis, and adjustment of accounts by Divisions in the Office of the Comptroller and between the Office of the Comptroller and the Office of Logistics.
- c. Elimination of the duplicate processing and recording of Fiscal Division property expenditure vouchers by the Finance Division and ABPD. The Fiscal Division property expenditures will be recorded by Fiscal Division in a manner to permit

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machine matching with and clearance of the payable recorded in Finance Division accounts without action by the Finance Division other than the preparation of monthly summary vouchers to adjust residual balances under \$25 and to clear matched item zero balances.

3. The recommendation for discontinuance of investigation of reasons for differences under \$25 on matched accounts is predicated upon a conclusion that machine matching of purchase order number and receiving report number for the payable and for the payment transactions provides valid evidence that basic controls have been substantially satisfied. This conclusion is based upon the premise that the real controls against improper payment are exercised through the careful audit of invoices against authentic receiving reports and valid purchase orders. As an added safeguard and an additional element of internal control, however, it is believed any case in which the dollars do not also match within a reasonable limit (herein recommended as amounts of \$25 or more) should be analyzed to determine reasons for the difference since the normal presumption would be that the payable and related inventory has been understated or overstated. As further justification to support the recommendations set forth in paragraph 6, below, a brief resume of the specifics of current problems in the accounts payable procedure as developed from a review of transactions is set forth in the following paragraph.

4. The review of 148 transactions occurring in July 1962, for which there would have been a machine matching of purchase order number and receiving report number for both the payable and the payment, revealed that 127 transactions matched with no dollar differences, although in three cases the Finance Division did adjust for discounts and taxes, and 21 transactions reflected differences of \$.01 to \$3,886.40 between the amount recorded based on the invoice payment and the amount of the payable recorded based on the receiving report. The differences included the following:

- a. Seven cases (\$.01, \$.01, \$.02, \$.03, \$.03, \$1.60, and \$5.60) attributable to the fact that the payable from Logistics represented the product of the number of units times the unit price rounded to the nearest mill--a fraction involving rounding typically develops when a trade discount is applied to the unit of billing price or when the unit of issue by Logistics is different than the unit of billing; five of these cases were in the latter category.
- b. Four cases (\$85.26, \$177.75, \$630.00, and \$3,886.40) attributable to line items of property received as reflected on a receiving report being omitted from the payable run--such items consequently were omitted from account 170 and from Logistics stock record controls.

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- c. Five cases (\$1.00, \$158.27, \$212.50, \$697.02, and \$1,836.00) attributable to erroneous punching of amounts by Logistics--the nature of the error was apparent in all but one case.
- d. Three cases (\$3.40, \$6.50, and \$173.66) attributable to erroneous determinations of the amount to be recorded in the accounts payable account.
- e. Two cases (\$158.63, and \$360.00) attributable to duplicate recording by Logistics of same receiving report--such items consequently resulted in overstating account 170 and Logistics stock record controls.
- f. One case (\$10.20) attributable to Logistics recording 30 units as received whereas only 20 units were actually received.

NOTE: The above cases add to 22 rather than 21 because one case involved two separate factors.

5. The foregoing analysis revealed twelve cases (described in subparagraphs 4b, c, e, and f, above) in which the errors had a direct bearing on Logistics stock records and only two of these cases involved a dollar amount less than \$25. None of the remaining ten cases required any action other than adjustment to bring the accounts to a zero balance; ten of the fifteen cases involved differences under \$25.

6. In view of the foregoing, it is recommended that:

- a. A policy be adopted to be effective immediately that any difference of less than \$25 between the amount of payment against a particular receiving report and the related payable be cleared without investigation. (As of 30 April 1963 there were 2,044 accounts in this category with a net credit balance of \$335.08.)
- b. The proposed Comptroller Instruction and the pro forma changes in the Charts of Accounts for the Fiscal and Finance Divisions, attached, be approved in principle (these documents will be processed for formal approval before they become effective).

7. In recognition of the substantial amount of time that would be required to analyze the large number of relatively dormant accounts that will not be cleared on the basis of the foregoing, it is proposed to develop more liberal criteria for clearing without investigation additional dormant accounts as soon as appropriate analyses can be prepared. Approval of such proposals will be requested before any action is taken thereon.

8. As a matter of general interest, there is attached as Exhibit A, a brief synopsis of a procedure analogous in basic control principle to that recommended above which was set forth in Volume 3 of the Navy Comptroller Manual. It will be observed that this procedure also embraces the concept of clearance without investigation of unmatched accounts based upon specified minimum dollar and age criteria. Although the recommendations in paragraph 6, above, do not provide for clearance of unmatched accounts without investigation, we do propose to keep the concept in mind for further consideration if analyses of transactions of nominal amount suggest that the adoption of such a concept would be warranted.

/s/

Chief, Finance Division

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/s/ _____ *9 June 63*
Chief, Technical Accounting Staff

Attachments

CONCURRENCES:

25X1A9a

See Attachment /s/ _____
Chief, Automatic Data Processing Division

6 JUN 1963

Date

25X1A9a

Subject to attachment /s/ _____
Acting Chief, Fiscal Division

6 JUN 1963

Date

25X1A9a

/s/ _____
Chief, Industrial Contract Audit Division

7 JUN 1963

Date

25X1A9a

/s/ _____
Comptroller's Representative,
Automatic Data Processing Staff

6 JUN 1963

Date

APPROVED:

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Deputy Comptroller

19 JUN 63

Date

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Mr. _____ withdrew his reservations hereto on 19 June 1963 following conference of Messrs. _____

/s/ FWG 19 June 1963

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